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ABSTRACT

Noting that the best public policies for children and families cannot be effective without sufficient funding to back them up, this budget guide seeks to help advocates learn the key elements to examine in state budgets. Focusing on the 2002-2003 budget cycle in Arizona, the report considers basic principles as they apply to policy related to young children and families. The report argues that budgetary issues should be of primary concern to human service advocates, and describes the sources of money in the state budget and delineates how the money is allocated. Principles are then presented that can help advocates clarify their options and inform budget debates: (1) provide sufficient funding to make policies work effectively, noting that funding falls short of the policy in child protective services staff, behavioral health services, and child care surveyors; (2) budget for long-term results, identifying important goals in this area as preschool now for later success and tax cuts with proof and purpose; (3) adjust funding each year to account for caseload growth and inflation unless an explicit policy decision has been made to reduce a specific service, noting that areas in which such "back-door cuts" are possible are child care subsidies, homeless youth intervention, and the "Success by Six" program; (4) create a clear and easily understood budget, identifying tax expenditures and the TANF spending as areas needing to be reported more clearly; and (5) respond to changing circumstances with changes in state funding policies, recommending that the Social Service Block Grant be replaced, after-school options expanded, and the creation of a new funding responsibility for the state general fund by examined. In addition, the report describes key funding sources for children's and families' programs and details the budget development process. The report concludes with a glossary of budget-related terms. (KB)

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a non-profit, non-partisan research, education and advocacy organization dedicated to promoting the well-being of all of Arizona's children and families

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WHAT TO LOOK FOR IN ARIZONA'S BUDGET FOR FISCAL YEARS 2002 AND 2003

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A GUIDE FOR ADVOCATES AND HUMAN SERVICE PROVIDERS

Alternative fuel tax credits made the headlines for months. Much attention was focused on this one issue as policymakers worked to resolve the problem, media publicized efforts (and blunders), and Arizonans talked about it around the water cooler. But the questions that arose from this unexpectedly costly and controversial issue are hardly unique. Rather, they are important concerns that are vital when examining any budget issue: *What did the program accomplish at what cost? What were the trade-offs? What will the long-term impact be?*

This budget guide seeks to help advocates learn the key elements to look for in the state budget. We've chosen some issues we think are particularly important as Arizona heads into the next two-year budget cycle (called a biennium), but the basic principles apply to any issue.

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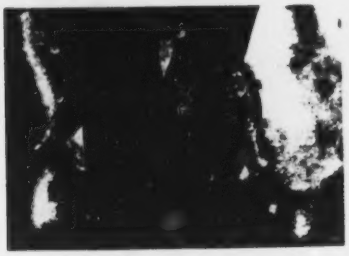
This Guide At A Glance

1. POLICIES AND FUNDING SHOULD GO HAND IN HAND ..... page 5



The best policies in the world cannot be effective without sufficient funding to back them up. Therefore, the state should provide sufficient funding to make policies work. Examples of areas where funding falls short of the policy include:

- Child Protective Services staff
- Behavioral health services
- Child care surveyors

2. BUDGET FOR LONG-TERM RESULTS ..... page 6

The budget is planned two years at a time, often with a key goal of keeping it balanced through the next couple of years. The proof of a good budget isn't making it through the next two years, instead it is in the results we produce over time. Examples to aim for include:

- Preschool now for success later
- Tax cuts with proof and purpose

3. NO BACK DOOR CUTS ..... page 6

Unless an explicit policy decision is made to reduce a specific service, funding should be adjusted each year to account for both caseload growth and inflation. Without these adjustments, budgets get nibbled away. Examples to watch for in this budget include:

- Child care subsidies
- Homeless Youth Intervention
- Success by Six

4. YOU GOTTA SEE IT TO BELIEVE IT ..... page 7

The state budget should be clear and easy to understand. Nobody should need a degree in accounting to figure out where their tax dollars are being spent. Examples of areas that need to be reported more clearly include:

- TANF (Temporary Assistance to Needy Families) spending
- Tax expenditures

5. RESPONDING TO CHANGING CIRCUMSTANCES ..... page 8

When circumstances change, state funding policies should probably change as well. Examples of programs that need to change with changing circumstances include:

- Replacement of the Social Services Block Grant
- Expansion of after-school options
- Coping with Students First

Although the issues change from biennium to biennium, these basic principles hold true over time. By mastering the budget basics, advocates can get important issues on the table. The consequences are very real for all Arizonans.

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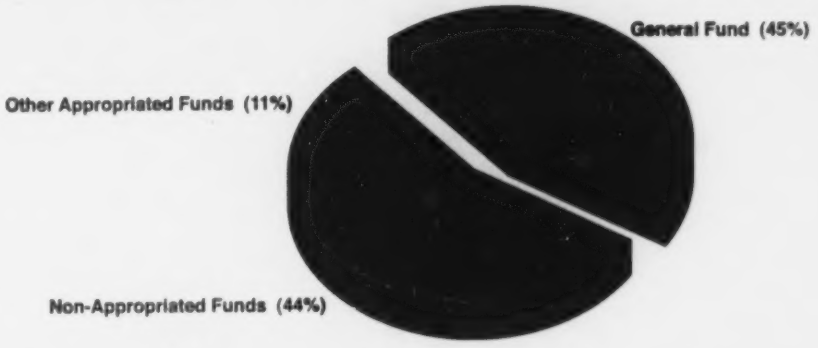
Why Money Matters

Sometimes human service advocates are reluctant to tackle budget and tax issues. They often sound big, complicated and intimidating. But often once you learn a few key components and phrases, the budget is fairly simple. It basically boils down to spending the money to get the desired results. (And if you can't figure out pretty easily where the dollars are coming from and going to, there is a problem with the way the budget is reported.)

Alternatively, budget issues can sound deadly dull. Appropriated funds, inflation factors and capitation rates aren't the stuff of scintillating conversations. And many budget issues sound unimportant. For example, a single percentage point difference in inflation factors may not seem like a high priority. But over time, a single percentage of inflation can result in a huge erosion of program funds. Even small budget issues may make a big difference.

Where the Money Comes From

Money in the state budget comes from a variety of sources. First, there is the state general fund. This money is raised from sales taxes, income taxes and other fees. The state has cut taxes consistently over the past decade so that state coffers have $1 billion less each year. While it only takes a simple majority (51%) to cut taxes, it takes a supermajority (66%) to raise a tax or fee or to eliminate a tax credit. That means it is much easier to reduce revenue than to raise new revenue. Currently, the general fund accounts for about 45% of the state budget, as illustrated in the pie chart here.



General fund revenue increases with population and inflation growth. As more people move here, more people pay taxes. As inflation drives prices up, sales taxes also go up. Since Arizona is a high growth state, revenues are likely to increase each year (even with no tax increases). However, these increases may or may not keep up with the demand for state services.

The state collects additional revenue that is earmarked for specific purposes. For example, one key source of additional state revenue is the tobacco tax. Voters approved a new tobacco tax in 1994 to create new health programs. Tobacco tax funds are used to pay for KidsCare, community health center services, organ transplants, and other programs. The state highway fund is the major source of state spending on roads. Another example is special license plates—when people buy these plates, the fees go into funds to prevent child abuse, protect the environment, etc.

The state also spends federal money. There are two primary types of federal money. The first is matching money. For every dollar the state spends, the federal government will provide the state with additional funding for that purpose. The exact matching rate depends on the program. For example, for every dollar the state spends on child care, the federal government give us $2 in child care development funds. For every dollar the state spends for KidsCare, we get $3 from the federal match. Sometimes there is a maximum amount the federal government will match. For example, in 2001 Arizona can get no more than $69 million in matching child care development fund dollars.

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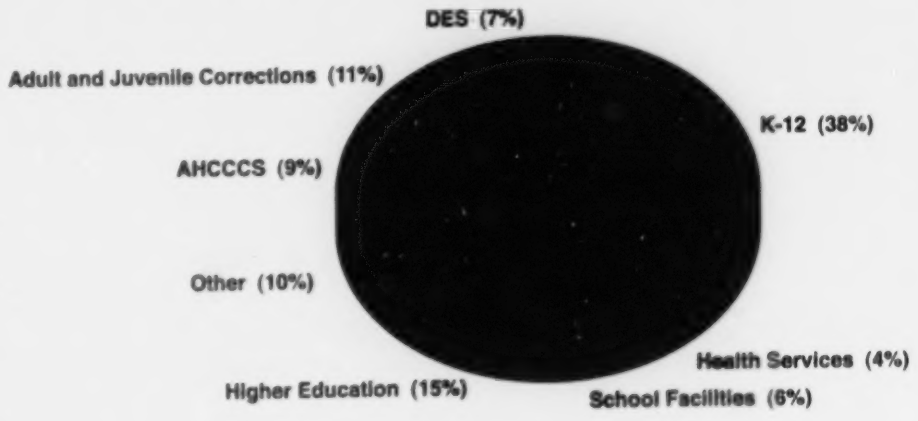
The second main type of federal money is block grants where the state gets a set amount of money. For example, Arizona gets about $240 million from the Temporary Assistance to Needy Families (TANF) block grant. States must meet certain rules in using the block grant and there is no dollar-to-dollar relationship as there is with matching funds.

Where the Money Goes Now

State agency budgets combine funding from all of these sources. In odd-numbered years (like 2001), state legislators and the governor decide on a budget for the next two years (2002 and 2003). In even-numbered years, the state tries to keep budget adjustments minimal, adding funds only for absolute essentials or making changes to keep the budget in balance.

In total resources in fiscal year 2001, state agencies will spend an estimated $13.7 billion. About 20% ($2.9 billion) goes for K-12 education. Another 16% ($2.2 billion) for the Arizona Health Care Cost Containment System (AHCCCS), and 12% ($1.7 billion) for the Department of Economic Security (DES).

The general fund is the most flexible state money. It is funded from a variety of sources and can be used for virtually any purpose. Arizona's total general fund budget as appropriated for 2001 is about $6.2 billion. Almost 40% ($2.4 billion) goes toward K-12 education. Another $906 million is spent on universities and community colleges. The state Department of Corrections gets $588 million, AHCCCS $528 million, the Department of Economic Security $448 million, School Facilities Board $339 million, the Department of Health Services $254 million, and Judiciary $151 million, as illustrated in this pie chart. The Arizona Constitution prohibits the legislature from appropriating more in general funds than the state is predicted to collect in revenues.



While most of the political action happens in the general fund, it is by no means the only money spent by the state. First, there are other appropriated funds, which are allocated by the legislature. For example, Temporary Assistance to Needy Families (TANF) is a federal block grant which is appropriated by the legislature. These funds are spent on welfare benefits, job training and education, child care, microenterprise development, teen pregnancy prevention, substance abuse treatment, and other programs specified by the legislature.

In fiscal year 2001, the legislature appropriated about $1.6 billion in funds beyond general fund expenditures. Almost one-quarter of other appropriated funds ($379 million) goes to DES, 19% ($297 million) goes for transportation; and 13% ($214 million) goes to universities.

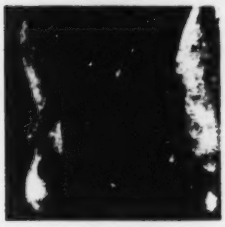
Second, there are non-appropriated funds, which are not allocated by the legislature. The major source of non-appropriated funds is federal funds. For example, Arizona gets money from the federal government for education services to disabled students, health care for children, and highways for drivers. In total in fiscal year 2001, Arizona state agencies are due to receive almost $6 billion in non-appropriated funds. AHCCCS gets 26% of non-appropriated funds ($1.5 billion), universities 16% of non-appropriated funds ($940 million), DES 14% ($850 million), and transportation 12% ($722 million).

One agency can have many different types of funding. For example, AHCCCS has total funding of almost $2.2 billion. Of that, $528 million comes from the general fund, $1.5 billion comes from non-appropriated funds (mostly federal Medicaid money), and almost $90 million comes from other appropriated funds (such as the tobacco tax).

Foregone revenues—tax cuts—do not show up as expenditures. In the 1990s, Arizona cut taxes by over $1 billion. The state property tax was eliminated, and personal and corporate income taxes were both cut about 20%. In addition, tax credits for alternative fuel vehicles are estimated to have a one-time cost of about $200 million. This is money that is not available for state programs.

What to Look For

As we enter into the next biennium, here are five things to look for in the Arizona budget:



1. POLICIES AND FUNDING SHOULD GO HAND IN HAND

The State should provide sufficient funding to make policies work effectively. It is both useless and misleading to adopt policies without the resources to carry them out. It's like getting a new car without an engine. You get the feel-good of new car smell, but you can't actually go anywhere.

More Child Protective Services (CPS) Staff

The state has a policy that every child in foster care receive at least one visit per month to make sure that the child is doing well and that things are proceeding to move the child into a safe and permanent home. Yet, almost half of the kids in foster care do not receive even this minimal monthly visit. The Department of Economic Security has requested and desperately needs 110 new CPS staff to carry out current policy and to provide needed services to abused and neglected children and their families, at a cost of a little over $3 million per year from the general fund.

Increased Funding for Behavioral Health

State law requires that the seriously mentally ill population (SMI) receives basic behavioral health services, such as outpatient counseling, residential treatment, case management, and psychotropic medication. Yet, thousands of Arizonans are going without these vitally needed services because of a continuing shortage of funds. An outside consulting firm, the Human Services Research Institute, has estimated that it will take $528 million each year to provide services required to implement the policy. While the legislature has made some further appropriations for SMI services recently, Arizona still needs an additional $322 million each year from the state general fund to meet the law's requirements.

Additional Child Care Surveyors

The Department of Health Services (DHS) is charged with inspecting licensed child care facilities to make sure they meet minimal health and safety requirements. State law requires that every licensed child care facility be inspected at least once per year. In recent years, the number of child care facilities has increased dramatically, in large part because of a policy shift which requires schools that house child care programs to become licensed. But DHS was not given any additional funds to hire more surveyors to inspect child care facilities. As a result, 500 child care facilities—20% of all facilities—have gone without the required annual inspection. DHS has requested $2.9 million over two years to hire more inspectors and improve the caseload to one surveyor for every 70 facilities. (The national average is 1:50.)

2. BUDGET FOR LONG-TERM RESULTS

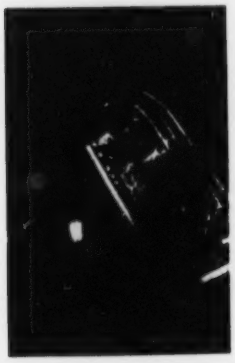
During the budget process, as priorities compete for limited funds, decisions are often made based on how low the cost can be. It often seems that the ultimate goal is to spend as little general fund revenue as possible. But that's like picking a cake recipe based on how little flour it has in it. While the proof of the cake is in the tasting, the proof of a good budget is the results it produces over time.

Many well-designed programs need ongoing funding over many years to produce positive results. But the state budget is adopted on a two-year cycle. Budget results that will occur after the biennium (and after the next election) often get ignored.

Preschool Now For Success Later
Studies repeatedly confirm that quality preschool helps children start school ready to learn and perform better in school once they are there. Yet, a quirk in the relatively new Students First school finance law makes it harder for schools to provide space for preschool programs.

Under Students First, the state has the responsibility to build and repair school buildings. The formula to determine whether or not a district needs a new school building is based on the number of square feet in the school and the number of K-12 students. The Students First law makes it more difficult for schools to provide space for preschool programs because preschool students are not counted in the formula for school space and capital funding. Quality preschool is a proven way to help kids start school ready to learn and to improve educational outcomes. State budget policy should be designed to encourage, not to hamper, these desired long-term results.

Tax Cuts with Proof and Purpose
As we painfully learned from the alternative fuels experience, the goal of tax cuts and tax credits should be clear (e.g., economic growth, cleaner air) when they're adopted. They should be subjected to the same evaluation rigor as spending programs. And, if evaluation and analysis reveal the tax cut or tax credit is not achieving the objective (e.g., spurring economic development or reducing the brown cloud), then it should be modified or eliminated.



3. NO BACK DOOR CUTS

Unless an explicit policy decision is made to reduce a specific service, funding should be adjusted each year to account for both caseload growth and inflation. In other words, funding should grow as the number of people requiring the service grows and as costs go up. Ignoring these adjustments creates a back door budget cut because state agencies are expected to make the same dollar stretch further. This has been the reality in Arizona's budget process for the past ten years. While an agency or department may indeed find creative or more efficient ways to continue the same level of services for a while, over time it simply becomes impossible. Services shrink or deteriorate in unintended ways that go without much notice or debate.

K-12 education offers an excellent example of what happens when agency budgets are nibbled away by back-door cuts. Between 1996 and 2000, inflation was a cumulative 9.2%. Base level funding for education at this same time increased at well under half that rate—3.6%. Without admitting that they were cutting resources for public education, *lawmakers cut the funding through the back door.* While schools were able to absorb some of the cuts, over time the loss of funding resulted in loss of services. Arizona voters reacted in November 2000 by approving Proposition 301 which requires that basic aid funding be increased for inflation each year (or 2%, whichever is less).

Child Care Subsidies
Even mediocre child care in Arizona costs $3,000 to $6,000 per year per child while a minimum wage job pays less than $11,000. Child care subsidies administered by the Department of Economic Security help defray some of these costs so that low-income working families can afford the child care they need. But the DES subsidy rates are tied to the cost of child care in 1996. Since that time, the average cost of care has increased by 18% or more. That means that low-income working families who use child care subsidies have to pay more and more out of pocket—another back door budget cut. General fund dollars for child care subsidies must increase by $81 million over two years just to keep up with caseload growth and inflation.

Homeless Youth Intervention
In 1998, Arizona passed the Homeless Youth Intervention Act which provides help to runaway and homeless youth who are not served by the child welfare or juvenile justice systems. The program first attempts to re-unify the youth with his family, and if that is unsuccessful, works to help the youth achieve self-sufficiency. The original funding was $800,000 for 18 months from the Temporary Assistance to Needy Families block grant. However, DES is requesting $400,000 for this program in each fiscal year 2002 and 2003. This is not enough to keep the program just running in place. The program needs $535,000 each year to avoid a back door budget cut.

Success By Six
In 1994, lawmakers funded a package of prevention and family support programs including Healthy Families (to prevent child abuse and improve family income) and Health Start (to provide prenatal care). Healthy Families is currently funded at $5 million and Health Start at $1.2 million from the general fund. In 2000, voters approved Proposition 204 which allocates $5 million from tobacco settlement monies to Healthy Families and $2 million to Health Start. These funds should be used to enhance, not replace, existing funding.

4. YOU GOTTA SEE IT TO BELIEVE IT

The state budget should be clear and easy to understand. Nobody should need a degree in accounting to figure out how their tax dollars are being spent. But some parts of the state budget are getting increasingly difficult to decipher.

TANF Spending
In 1996, Congress replaced federal dollars for welfare payments with a Temporary Assistance to Needy Families (TANF) block grant. This money is designated to help needy families and comes with tremendous flexibility. Arizona is using some of this money to pay monthly assistance to families receiving welfare. But we are also allocating TANF funds for child care subsidies, transportation assistance, mentoring programs, teen pregnancy prevention, microenterprise development, and a host of other programs.

When TANF was first appropriated by the legislature (fiscal years 1997 and 1998), the appropriations report published by the Joint Legislative Budget Committee clearly delineated where each TANF dollar was appropriated. In contrast, in fiscal year 1999, the report says that $222.6 million has been allocated, but specifies the use of only $148.4 million. It is no longer transparent in the budget reports where all the TANF money is to be spent. This will make it harder to track welfare spending trends in the future. And TANF money is definitely being used in increasingly creative and complex ways. If we do not know where the money is going, it is difficult, if not impossible, to assess how well it is being used to help low-income families.

Tax Expenditures
Tax credits, loopholes, deductions, and exemptions represent budget policy decisions, just like spending programs. However, while annual budget reports display a complete inventory of state spending, there is

no such annual inventory for tax credits, loopholes, deductions, and exemptions. While much analysis and attention is focused on who gets what benefits from spending programs, little analysis is done about who benefits from tax credits, loopholes, deductions, and exemptions. These inventories and analyses should be published annually just as they are for spending programs.

5. RESPONDING TO CHANGING CIRCUMSTANCES

The only constant in life is change. When circumstances change, state funding policies should probably change as well. Back in territorial days, we probably needed to spend money on horse and buggies. Today, state agencies need up-to-date computers, electricity and indoor plumbing. We need to take external economic and environmental changes into account when planning the state budget.

Replacement of the Social Services Block Grant

Over the past several years, the U.S. Congress has repeatedly cut funding for the Social Services Block Grant (SSBG). Arizona's portion of SSBG has been reduced by almost $7 million. This money is used in a variety of ways to help children, families, and elderly and people with disabilities. Examples of services include adult protective services, meals for elderly and disabled persons, shelter, therapies, employment services for people with developmental disabilities, and respite care. Community agencies are increasingly reporting that SSBG cuts are impairing their ability to serve clients. In response to this change, DES has requested $5 million in general fund dollars to make up for some of the cuts. This assistance will be vital for maintaining services in communities.

Expansion of After-School Options

New research shows that the after-school hours are the most dangerous time to be a kid. It is when children are most likely to be hurt or to get involved in risky behavior. And, contrary to popular belief, children are far more likely to be the victims of violent crime than the perpetrators. Concurrently, with welfare reform and the 21st century economy, more parents are employed. Recent clarifications in federal policy make it clear that TANF money can be used for after-school programs. Arizona should take advantage of this new opportunity to invest in quality after-school programs, including teen mentoring, homework assistance, and skill development in the out-of-school hours.

Coping with Students First

In 1994, the Arizona Supreme Court ruled that Arizona's system of financing school buildings with local property taxes was unconstitutional because it failed to ensure adequate facilities throughout the state. In 1998, the governor and state legislature responded with Students First, a law that requires the state to set minimum building standards and to finance the building and repair of schools through the state general fund sufficient to meet these standards. Thus, the Students First law created a brand new funding responsibility for the state general fund—with no new fund source. And that responsibility is incredibly large. Just to make required repairs to existing schools is estimated to cost almost $1 billion additional over the next two years. Arizonans should evaluate Students First not only on how well it finances school buildings, but also on its impact on the rest of the state budget.

The Case for Being Budget-Wise

Budget decisions are inherently complex and controversial because they reflect our deepest values and they require difficult trade-offs. The principles outlined here can help clarify our options and help inform budget debates. Power, politics, and the squeakiest wheels will always influence budget policies. But, armed with a better understanding of the budget process and the key components, advocates can make a bigger difference in improving the quality of life for all Arizonans.

Key Funding Sources for Children's and Families' Programs

Child Abuse Prevention (CAP) Fund

The CAP Fund, established in 1982, provides financial assistance to community agencies for child abuse and neglect prevention programs. The CAP Fund receives its revenues from the state income tax check-off, surcharges for marriage licenses, dissolutions of marriage, and death certificates. Revenues vary yearly. In 1999, the fund received $726,000.

Child Care Development Fund (CCDF)

This federal money can be used to provide child care subsidies for low-income families. It takes $1 in state general fund dollars to draw down approximately $2 in CCDF. Four percent of CCDF money must be used to improve the quality of child care in the state.

Children's Health Insurance Program (CHIP)

These federal funds are available to cover children with health insurance, based on state matching funds. Arizona uses the tobacco tax to provide the state match. The resulting program, called KidsCare, covers kids with family incomes up to 200% of the federal poverty level.

General Fund

This is money the state collects through corporate and personal income taxes, sales taxes, and fees. It can be used to fund any state program. The Arizona Constitution prohibits expenditures from exceeding revenues.

Title IV-E

This is a federal entitlement program which provides funds to the Department of Economic Security to assist in meeting the needs of eligible low-income children who are removed from their homes and placed in foster care. Federal funds are received based on the number of eligible children and related foster care and adoption subsidy payments, staff training, and administrative costs.

Medicaid

Medicaid provides federal matching funds to offer health insurance to low-income residents. State matching funds come from a variety of sources.

Temporary Assistance to Needy Families (TANF)

This is a federal block grant of close to $240 million per year. The amount of the block grant will change in 2003, maybe sooner. TANF can be used for any of four purposes: to provide assistance to needy families so that children may be cared for in their own homes; to end dependence of needy parents by promoting job preparation, work and marriage; to reduce out-of-wedlock pregnancies; or to encourage formation and maintenance of two parent families.

Tobacco Settlement

These are revenues resulting from a lawsuit brought by states against tobacco companies. Arizona's share of the settlement is estimated to be about $3 billion over 25 years. In 2000, voters chose to use this money primarily to pay for health care coverage for poor adults.

Tobacco Tax

An additional tax on tobacco enacted by voter initiative brings in approximately $105 million each year. This money can be used for new health programs and currently funds such programs as KidsCare, community health center services, and organ transplants.

Social Services Block Grant (SSBG)

These federal funds can be used in a variety of ways to help children, families, and elderly and disabled people with various needs. Examples of services include adult protective services, meals for elderly and disabled persons, shelter, therapies, employment services for people with developmental disabilities, and respite care. The state decides how to spend about two-thirds of SSBG funds and the remaining third is locally planned.

The Budget Development Process

Arizona now has a two-year budget. In 2001, the state will develop the budget for fiscal years 2002 and 2003. In 2002, the state will likely take minimal action on the budget, making only the most essential adjustments.

Agency Budget Preparation

- In June, the Governor's Office of Strategic Planning and Budgeting tells each agency the maximum amount it can request in the upcoming two years. OSPB may also issue guidance, such as priority areas to focus spending.
- The agencies assess issues, prepare strategic plans, review their operations and prepare a budget request that meets OSPB guidelines.
- They also submit "wish lists" called Critical Issues. These are items where the agency feels it needs additional money, but cannot fit the item into its allowable budget request. The agency submits "decision packages" describing why the areas are important and in need of funding.
- Agencies generally submit their final budget requests by October.

Governor's Budget

OSPB collects budget requests from all the agencies and prepares a budget proposal that reflects the governor's priorities and keeps spending to an amount covered by projected revenues or tax increases. The governor's budget is released in January.

Legislative Budget

The Joint Legislative Budget Committee (JLBC) staff collects and analyzes budget requests and prepares a budget proposal that reflects the priorities of legislative leadership. It also keeps spending to an amount covered by projected revenues.

Budget Process

- The JLBC and OSPB budget proposals are presented to the public and all legislators in January.
- The House and Senate Appropriation Committees approve agency operating and capital budgets.
- The budget as approved by the Appropriation Committee is then debated by the full Senate and the full House.
- If the House and Senate approve different budget bills, a conference committee is formed to iron out the differences.
- Any projected revenue that is not allocated to agency budgets is put in a "box." This "box" is what is available to fund any other bills which require an appropriation.
- Once the House and Senate agree on a budget bill, it is given to the governor.
- The governor has five days to act during legislative session; ten days if the session has adjourned.
- If the governor signs the bill, it usually takes effect July 1.
- If the governor vetoes the bill, the discussions and negotiations start all over.
- The governor may eliminate funding for specific programs or services through a "line item veto."
- If the governor fails to act within five (or ten) days, the bill becomes law.

The Jargon *(You Didn't Think It Was All About Numbers, Did You?)*

Appropriated Funds
The legislature gets to decide where appropriated funds are spent. These funds are detailed in budget reports. The major appropriated fund is the general fund. The Temporary Assistance to Needy Families (TANF) block grant and the Child Care Development Fund (CCDF) are also appropriated.

Base Year
The year against which budget figures are shown. This upcoming budget is for fiscal years 2002 and 2003. The base year will (generally) be 2001. That means that budget changes for 2003 will be compared to the budget of 2001.

"The Box"
Projected general fund revenue that has not been appropriated to state agencies is put in the "box." This is the funding source for most new programs. At the end of the legislative session, there is often a mad rush to get programs funded from the dollars in the box. If a proposal needs funding and does not fit in the box (and cannot find another funding source), it will not happen.

Budget Request
Agencies submit to the governor and the legislature their estimate of what it will cost to operate their existing programs, and perhaps suggest new, needed items. Agencies are given a target amount and their budget request needs to stay under that amount. The governor and legislature use the budget request from each agency to prepare the budget proposals for the entire state.

Critical Issue
If an agency wants to do something that does not fit within their budget request, the agency submits a critical issue decision package, explaining why funding is needed for a particular program. The governor and legislature then decide whether or not the critical issue should be included in the final budget.

Fiscal Note
When a bill is likely to have a budget impact, JLBC may prepare a fiscal note to estimate the cost or savings of the proposal. Legislators may request fiscal notes for particular bills.

Fiscal Year
The state fiscal year runs from July 1 through June 30 and is named for the year in which it ends. For example, state fiscal year 2002 (FY02) starts July 1, 2001 and ends June 30, 2002. (The federal fiscal year runs from October 1 until September 30.)

General Fund
Revenues from a variety of state sources, such as income taxes and sales taxes, go into the general fund. The general fund can be used for any state purpose. It is similar to "unrestricted funds" in a non-profit organization's budget.

JLBC
Joint Legislative Budget Committee—the legislature's budget office. There is a committee of legislators that make decisions as well as JLBC staff, who, under committee direction, prepare the initial legislative budget proposal, calculate costs of new proposals, answer budget questions, etc.

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Non-Appropriated Funds
Funds that are not appropriated by the legislature. These funds are not generally detailed in budget reports. Two examples of non-appropriated funds are federal IV-E money used for child welfare and Medicaid money used to fund some AHCCCS services.

OSPB
Office of Strategic Planning and Budgeting—the governor's budget office.

Rainy Day Funds
Right now, Arizona's economy is growing rapidly. Each year inflation and population growth result in more revenues to the state. However, in the 1980s, times were very different and revenues did not keep up with growth. To help the state avoid fiscal crisis during economic recessions, Arizona has various rainy day funds. The biggest one, called the Budget Stabilization Fund, is funded by formula based on changes in personal income. When personal income is growing above the 7-year trend, the formula calls for deposits into the stabilization fund. When personal income growth is falling more than 2%, the formula calls for withdrawals from the stabilization fund. The legislature can override this formula by a two-thirds majority vote at any time. There is about $420 million in the Rainy Day Fund (before money is taken out to pay for alternative fuel vehicles).

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